

Audit Report



ASSESSMENT OF INVENTORY AND CONTROL OF DEPARTMENT OF DEFENSE MILITARY EQUIPMENT

Report No. D-2001-119

May 10, 2001

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Abstract On October 5, 1999, Congress passed Public Law 106-65, National Defense Authorization Act for Fiscal Year 2000, Section 363, "Report on Inventory and Control of Military Equipment." The law required the Secretary of Defense to submit a one-time report, by Military Department, addressing the inventory and control of military equipment. The Committees on Armed Services of the Senate and the House of Representatives were to receive the reports by August 31, 2000. The report was to address the military equipment status as of the end of fiscal year 1999. Public Law 106-65 required the Inspector General, Department of Defense, to review the report submitted to the committees and submit any comments considered appropriate by November 30, 2000. DoD actually issued the report on March 6, 2001, based on reporting for FY 2000 instead of FY 1999. The report identified 643,254 military equipment assets. These assets have an estimated value of about \$700 billion.		
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Acronyms

AAA	Army Audit Agency
CBS-X	Continuing Balance System-Expanded
CCSS	Commodity Command Standard System
HMMWV	High Mobility Multipurpose Wheeled Vehicles
ICBM	Intercontinental Ballistic Missile
LOGSA	Logistics Support Activity
NDE	National Defense Equipment
ND PP&E	National Defense Property, Plant, and Equipment
PP&E	Property, Plant, and Equipment
PP&E PMO	Property, Plant, and Equipment Program Management Office
RSSI	Required Supplementary Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards
SOCOM	Special Operations Command
WARS	Worldwide Ammunition Reporting System



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May 10, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS

SUBJECT: Audit Report on Assessment of Inventory and Control of Department of Defense Military Equipment (Report No. D-2001-119)

We are providing this report for your information and use. We conducted the audit as required by Public Law 106-65, National Defense Authorization Act for Fiscal Year 2000, Section 363, "Report on Inventory and Control of Military Equipment." Public Law 106-65 requires DoD to submit a report, by Military Service, addressing the inventory and control of military equipment, and the Inspector General, DoD, to comment on the reliability of the DoD report submitted to Congress. We considered management comments on a draft of this report when preparing the final report.

The report does not contain recommendations, therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Mr. John A. Richards at (703) 604-9133 (DSN 664-9133) (jrichards@dodig.osd.mil). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2001-119
(Project No. D2001FH-0004)

May 10, 2001

Assessment of Inventory and Control of Department of Defense Military Equipment

Executive Summary

Introduction. On October 5, 1999, Congress passed Public Law 106-65, National Defense Authorization Act for Fiscal Year 2000, Section 363, "Report on Inventory and Control of Military Equipment." The law required the Secretary of Defense to submit a one-time report, by Military Department, addressing the inventory and control of military equipment. The Committees on Armed Services of the Senate and the House of Representatives were to receive the reports by August 31, 2000. The report was to address the military equipment status as of the end of fiscal year 1999.

Public Law 106-65 required the Inspector General, Department of Defense, to review the report submitted to the committees and submit any comments considered appropriate by November 30, 2000. DoD actually issued the report on March 6, 2001, based on reporting for FY 2000 instead of FY 1999. The report identified 643,254 military equipment assets. These assets have an estimated value of about \$700 billion.

Objectives. The overall audit objective was to review and comment on the DoD inventory and control report covering DoD military equipment submitted by the Secretary of Defense. Specifically, we addressed beginning balances, additions and deletions, and ending balances of military equipment.

Results. Our physical inventories of 23,283 assets (3.6 percent of the total quantities reported) identified 87 errors (99.6 percent accuracy level) in the unit-level property books. At the unit level, 27 logistics systems were used to monitor and control military equipment. The quantities from the 27 systems were compiled into 13 systems and subsequently adjusted by Military Service item managers. For example, the Marine Corps compiled data from five unit level systems into two mid-level systems and then into the Material Capability Decision Support System, whose quantities were then adjusted. The adjusted quantities were then submitted to the Under Secretary of Defense for Acquisition, Technology, and Logistics for preparation of the DoD Military Equipment Report.

Based on an analysis of the DoD Military Equipment Report, DoD addressed the data elements and reconciliation requirements of the law. However, as stated in the letters accompanying the report, DoD chose not to include supporting schedules, some of which were classified, identifying the location of each item. The letters indicated that if Congress desired such information, it would be provided upon request.

The logistics systems used to compile the DoD report generally could not provide detailed information. For example, two of the Army systems, Continuing Balance System-Expanded and Commodity Command Standard System, did not track items down to the identification number for verification of equipment inventoried. In addition, choosing not to provide the detailed information hindered any reconciliation of our

inventory results. We concluded that quantities listed in the DoD Military Equipment Report were unsupported. Logistics systems used to perform the accountability function do not support military equipment beginning balances, additions, deletions, or ending balances. Also, assets listed in the different categories were inconsistent—each Military Service defined somewhat differently those assets that would be reported in the particular reporting categories. For example, the Army and the Marine Corps included High Mobility Multipurpose Wheeled Vehicles in the Military Equipment Report, but the Air Force did not.

As a result, there was no direct relationship between the quantities reported and the quantities available in the logistics systems used to compile the report. Military Department and DoD personnel supplemented the systems with data calls, manual-tracking systems, and item manager reviews. In summary, military equipment is well controlled at the unit level, but at the Military Department or DoD level, because of the multiplicity of systems and data calls, it is difficult to complete an inventory and provide an accurate summary report with audit trails. Therefore, Congress and DoD cannot rely on the Military Equipment Report for management purposes because it does not provide accurate or consistent information. For details of the audit results, see the Finding section of the report.

Office of the Secretary of Defense Initiative. On December 6, 2000, the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the Under Secretary of Defense (Comptroller) established a Property, Plant, and Equipment Program Management Office to effectively coordinate and oversee DoD efforts to resolve existing property, plant, and equipment accountability, accounting, and reporting problems such as the ones identified in this report. This office is composed of personnel from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Office of the Under Secretary of Defense (Comptroller).

Management Comments. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics disagreed that Congress and DoD cannot rely on the Military Equipment Report. Management stated the Military Equipment Report and the audit were not intended for decision making but were directed by Congress to assess whether the Department's military equipment is properly controlled. Management also stated that the Military Departments use numerous logistics and property systems to manage and control military equipment and that these logistics and property systems were never designed to provide summary information as was required by the Military Equipment Report. In addition, management stated that there was no requirement for a reconciliation between the ending balances contained in the FY 1999 DoD financial statements and the opening balances of the Military Equipment Report. See the Finding section of the report for a discussion of the management comments and the Management Comments section for the complete text.

Audit Response. We agree that it is theoretically possible to use numerous systems and other means of gathering data and still arrive at reasonable numbers for the report. However, when requested documentation to support this data cannot be provided and considering the multiple avenues used to collect the data, the probability of error is significantly increased. DoD also should have explained the differences between prior year ending balances and current year beginning balances even though Public Law 106-65 did not explicitly require it. Based on Management Comments, we modified our report where appropriate. See the Finding section for the complete text of the Audit Response.

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Background

Public Law 106-65, Section 363. On October 5, 1999, Congress passed Public Law 106-65, National Defense Authorization Act for Fiscal Year 2000, Section 363, “Report on Inventory and Control of Military Equipment.” Public Law 106-65 required the Secretary of Defense to submit a one-time report (Military Equipment Report) addressing the inventory and control of military equipment. Public Law 106-65 required the report to address each Military Department separately. The Military Equipment Report was to address the military equipment status as of the end of FY 1999, and the Committees on Armed Services of the Senate and the House of Representatives were to receive the report by August 31, 2000. Specifically, the report was to include the following information on military equipment in the inventory – stated by item nomenclature:

- Quantity of each item in the inventory as of the beginning of the fiscal year,
- Quantity of acquisitions during the fiscal year,
- Quantity of disposals during the fiscal year,
- Quantity of losses of the item during the performance of military missions, and
- Quantity of the item in the inventory as of the end of the fiscal year.

Public Law 106-65 also required the Department of Defense to analyze the data and provide support for the conclusions. Specifically, the following information was required.

- Reconciliation of the quantities as of the beginning of the fiscal year with the quantities as of the end of the fiscal year
- Supporting schedules identifying the location of each item to be available to Congress or auditors of the Comptroller General upon request
- For items that could not be reconciled, an explanation addressing why it could not be reconciled and a discussion of remedial actions planned including target dates for accomplishing the actions

Lastly, Public Law 106-65 required the Inspector General, DoD, to review the Military Equipment Report submitted to the committees and to submit any comments considered appropriate by November 30, 2000. As indicated in the DoD letters accompanying the report to Congress, DoD could not satisfy the requirements of Public Law 106-65, which required the report to be prepared as of FY 1999, because the law was enacted after the close of FY 1999 and the conduct of a systematic inventory and preparation of the report required time for planning and coordination. Therefore, the report was prepared as of the end of FY 2000.

DoD Submission to Congress. On March 6, 2001, DoD submitted the Military Equipment Report to Congress. As a result, our comments addressed in this report included the results of our physical inventories and a review of draft versions of the

Military Equipment Report. In addition, we relied on previous audit work on Required Supplementary Stewardship Information National Defense Property, Plant, and Equipment (PP&E) reported by DoD in the last two fiscal years. Based on a review of the Military Equipment Report submitted to Congress, DoD provided the required data elements and reconciled beginning and ending balances. However, as discussed in the report, the beginning balances used for FY 2000 did not usually match the FY 1999 ending balances. This audit report addresses the overall DoD presentation for military equipment. We are also preparing separate audit reports to each Military Department concerning specific issues related to that Department. In addition the National Guard inventories will be addressed in detail in the Army report.

Military Department Inventory Procedures. The Military Departments perform systematic inventories throughout the year for most military equipment. For military equipment not inventoried, other methods are available to monitor the equipment inventory. Therefore, DoD elected not to perform a complete physical inventory in order to meet the requirements of Public Law 106-65.

Verification of Equipment. In order for the Inspector General, DoD, to comply with the legislative requirement to comment on the DoD report, we performed physical inventories of military equipment at selected locations. For a list of locations, see Appendix C. We inventoried military equipment such as aircraft, tanks, ships, boats, combat vehicles, missiles, and torpedoes. At most locations visited, we judgmentally selected 15 items from the unit property book and attempted to physically locate the equipment. This was our “book-to-floor” inventory verification. For high-dollar value equipment, such as aircraft and ships, we performed a 100-percent inventory. If the item was not physically located during the immediate phase of our inventory, we obtained off-site supporting documentation to verify the status, for example, flying or at maintenance depot. Additionally, we judgmentally selected 10 items from each physical location to trace back to the property book. If any of the items were not listed on the property books, we obtained supporting documentation to verify why the equipment was in the unit’s possession. This was our “floor-to-book” inventory verification. For further details on our sampling process, see Appendix A.

Objectives

Our overall objective was to review and comment on the inventory and control report covering DoD military equipment submitted by the Secretary of Defense. Specifically, we addressed beginning and ending military equipment balances as well as additions and deletions of military equipment. Appendix A provides a discussion on scope and methodology. See Appendix B for prior coverage related to the audit objectives.

Reliability of DoD Military Equipment Report

Based on our military equipment inventories, the unit-level property books were generally accurate (99.6 percent accuracy level). However, the quantities of military equipment in the DoD Military Equipment Report submitted to Congress in response to Public Law 106-65, Section 363, are not taken directly from those property books or supported by logistics systems. The military equipment is well controlled at the unit level, but at the Military Department and DoD levels the summary numbers lack audit trails and may not be accurate because the systems are not integrated. In addition, the definition of items identified as military equipment varied among the Military Departments. The beginning balances (665,060 assets), additions (13,373 assets), deletions (35,179 assets), and ending balances (643,254 assets) of military equipment cannot be verified because the logistics systems that produced these asset numbers required extensive adjustments. In addition, each Military Department independently, but inconsistently, defined which assets would be disclosed in the reporting categories. Consequently, Congress and DoD cannot rely on the DoD Military Equipment Report because it does not provide accurate or consistent information.

DoD Plans to Implement the Public Law

Public Law 106-65 defined military equipment as all equipment used in support of military missions and maintained on the visibility systems of the Army, Navy, Air Force, and Marine Corps. For this report, we considered the various Military Department logistics systems as being the visibility systems outlined in Public Law 106-65.

In an effort to facilitate preparation of the Military Equipment Report, the Under Secretary of Defense for Acquisition, Technology, and Logistics provided guidance to the Military Departments. A standardized format was developed that corresponded to the requirements of the National Defense Property, Plant, and Equipment (ND PP&E) Report, contained in the Required Supplementary Stewardship Information (RSSI) section of the DoD FY 2000 financial statements. The RSSI section is required by DoD Regulation 7000.14-R, “DoD Financial Management Regulation” volume 6B, “Form and Content of the DoD Audited Financial Statements.” To comply with the Public Law 106-65 requirement, the RSSI reporting format was modified to include various types of assets within each general category of military equipment. For example, the general category “combat aircraft” was further delineated by type of aircraft, for example, F-15, F-16, and F-18.

The requirements of the DoD Regulation 7000.14-R, volume 6B were applied to the Military Equipment Report in an attempt to use one set of data for both reports. Therefore, the information used to compile the RSSI was also used as the basis to prepare the Military Equipment Report required by Public Law 106-65.

Property, Plant, and Equipment Reporting Requirements

Statement of Federal Financial Accounting Standard (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment," November 1995, was the first SFFAS to address accounting and reporting requirements for PP&E. It establishes two categories of Federal PP&E: general and stewardship.

General PP&E. SFFAS No. 6 defines general PP&E as any property, plant, and equipment used in providing goods or services. It also prescribes accounting and reporting requirements for general PP&E. General PP&E is recorded at cost on the balance sheet and, except for land, the cost is depreciated over the estimated useful life of the assets.

Stewardship PP&E. SFFAS No. 6 defines three categories of stewardship PP&E: National Defense PP&E (formerly Federal mission PP&E) is one of the three categories. In most cases, the dollar value of stewardship PP&E is not included in the balance sheet. Additional stewardship guidance is provided in SFFAS No. 8 and SFFAS No. 11.

SFFAS No. 8, "Supplementary Stewardship Reporting," June 1996, added two broad areas of stewardship reporting to stewardship PP&E: stewardship investments and stewardship responsibilities. SFFAS No. 8 also established reporting requirements for all three stewardship categories. All stewardship reporting is in the RSSI section of the financial statements. Both SFFAS No. 6 and SFFAS No. 8 became effective for fiscal periods beginning after September 30, 1997.

In February 1998, the Federal Accounting Standards Advisory Board (the Board) issued an Exposure Draft proposing to amend SFFAS Nos. 6 and 8 substantially. On August 8, 1998, the Board decided in principle to adopt the major points of the Exposure Draft, with certain issues to be addressed later. The result was SFFAS No. 11, "Amendments to Accounting for Property, Plant, and Equipment: Definitional Changes," December 1998, which became effective for FY 1999 with early implementation encouraged. The DoD was the department most affected by SFFAS No. 11 changes and chose early implementation for FY 1998. In addition to the name and definitional change, DoD expected SFFAS No. 11 to implement most of the significant changes addressed in the Exposure Draft to SFFAS Nos. 6 and 8. Included in these major changes was the change to reporting quantities instead of historical cost data for ND PP&E. However, SFFAS No. 11 did not implement this change in the final version.

Reporting of National Defense PP&E. DoD has been reporting in the DoD RSSI Statements quantities of ND PP&E when it should have reported the dollar value as prescribed by SFFAS No. 8. We reported that condition in Inspector General, DoD, Audit Report No. 99-210, "Stewardship Reporting in the DoD Agency-Wide Financial Statements for FY 1998," July 9, 1999, but acknowledged that the guidance was being reconsidered at that time.

The guidance issue was still unresolved at the time of this audit. The Board was trying to decide the most appropriate way to report ND PP&E. The discussion included an extensive study of the intricacies of reporting values of ND PP&E,

indicating that reporting of values is likely to remain a requirement. Although the reporting of values would not necessarily mean returning the ND PP&E values to the balance sheet, the possibility remains.

Proposed Future Reporting of the Elements of RSSI. The Board was proposing to eliminate the designation "RSSI." Each element of what had been reported as RSSI would become either basic information, equivalent in importance to the principal financial statements, or the less audited required supplementary information. As of April 16, 2001, the Board had not yet decided into which category ND PP&E should be reported. Any actual changes to the SFFAS have to go through a public comment process. The target date for implementation of any of those changes is FY 2003.

Effect on DoD on Preparing the Military Equipment Report. Although all the changes for the reporting of ND PP&E were in relationship to the RSSI reporting requirements, the constant changes have adversely affected the ability of DoD to develop and implement policy and procedures and standardize the way to report military equipment in the Military Equipment Report.

KPMG, LLP Study

KPMG, LLP has had an on-going study covering ND PP&E systems, methods, processes, and procedures that included an evaluation of National Defense PP&E Reporting Approaches. KPMG, LLP concluded that the Military Departments use multiple automated and manual logistics systems to perform the ND PP&E accountability function. These systems were not designed to serve as traditional accounting systems and, therefore, do not interface with general accounting systems that capture financial data. These systems are seriously limited in capturing financial information. In addition, KPMG, LLP found that multiple organizations are involved in ND PP&E data collection, analysis, and reporting, thus further complicating the ND PP&E accounting process. Based on discussion with Property, Plant and Equipment Program Management Office personnel, DoD management has agreed with the background information addressed in the draft study reports and presentations. Although the KPMG, LLP study was an evaluation of ND PP&E reporting approaches for RSSI, the systems used to capture RSSI data were also used to capture Military Equipment Report data. We agree with the conclusions of KPMG, LLP that the logistics systems have limited ability to capture financial information on assets.

Even though we agree with the KPMG, LLP logistics system conclusions, we determined that unit level property books we reviewed were accurate for items inventoried. See the following sections on Unit Level Property Books, Beginning Balances, Additions and Deletions, and Ending Balances, and the flowcharts at Appendix E.

Unit Level Property Books

Physical inventories of 23,283 assets (3.6 percent of the total quantities reported) identified 87 errors (99.6 percent accuracy level) in the unit-level property books. At the unit level, 27 logistics systems were used to monitor and control military equipment. The quantities from the 27 systems were compiled into 13 systems and subsequently adjusted by Military Service item managers. For example, the Marine Corps compiled data from five unit level systems into two mid-level systems and then into the Material Capability Decision Support System, whose quantities were then adjusted. The adjusted quantities were then submitted to the Under Secretary of Defense for Acquisition, Technology, and Logistics for preparation of the DoD Military Equipment Report.

Beginning Balances

We compared the September 30, 1999, RSSI report ending balance against the beginning balance for the Military Equipment Report as of October 1, 1999. Comparing the quantities reported from the same logistics systems from one day to the next clearly showed the lack of a direct relationship for the Military Equipment Report and the logistics systems used to support it. Because of classification changes and changes in defining the condition of equipment, we identified numerous differences that reduced by 36,995 the total number of assets in the Military Departments. Table 1 provides an overview of the beginning and ending balance differences.

Table 1. Overview of Differences

<u>Military Service</u>	<u>RSSI Ending Balance as of 9/30/99</u>	<u>Military Equipment Report Beginning Balance as of 10/01/99</u>	<u>Difference</u>
Army	484,042	473,247	(10,795)
Navy	74,875	83,927	9,052
Air Force	88,986	67,949	(21,037)
Marine Corps	54,152	39,937	(14,215)
Total (Net)	702,055	665,060	(36,995)

The following is a general overview of the differences in ending and beginning inventory balances by Military Departments and, where available, the reasons for the changes. Compilation errors refer to mistakes, such as math miscalculations, that were made in the FY 1999 compilation of balances that were discovered and corrected during the FY 2000 compilation. Unsupported changes occurred where the Military Service could not determine the basis for the figures shown in FY 1999 and therefore adjusted them.

Army Beginning Balances. The Army used three automated systems in conjunction with data calls to compile the National Defense Equipment (NDE) quantities for the Military Equipment Report. Table 2 shows the breakdown and related reasons for the adjustments.

Table 2. Army Differences Between 9/30/99 Data and 10/1/99 Data					
<u>Equipment Type</u>	<u>Difference</u>	<u>Compilation Error</u>	<u>Classification Change</u>	<u>Wrong Fund</u>	<u>Unsupported</u>
Aircraft (All Categories)	179	294	0	0	(115)
Ships (All Categories)	(23)	2	0	0	(25)
Combat Tracked Vehicles	2,460	1,503	775	6	176
Combat Wheeled Vehicles	(201)	2,258	(4,731)	2,182	90
Combat Towed Vehicles	491	76	481	23	(89)
Missiles	(13,701)	(12,204)	0	0	(1,497)
Net Total Quantities	(10,795)	(8,071)	(3,475)	2,211	(1,460)
Absolute Total Quantities	17,055				

Many of the Compilation changes were the result of timing differences, stock record account quantities not reported, and lags in updating the end-of-year data. Classification changes occurred because of changing definitions of which National Stock Number items were considered as ND PP&E between FY 1999 and FY 2000. Wrong Fund differences were quantities of assets erroneously considered as belonging to different financial reporting entities in FY 1999 and, therefore, not reported in the FY 1999 Army General Fund RSSI statements. Shifting these assets to the General Fund in FY 2000 required adding them for this report. Unsupported changes also occurred in the Army when system balances changed during the fiscal year although the items had no known additions or deletions.

Navy Beginning Balances. The Navy used five automated systems in conjunction with a manual data call to compile the reported NDE data. Table 3 shows the breakdown and related reasons for the adjustments.

Table 3. Navy Differences Between 9/30/99 Data and 10/1/99 Data					
<u>Equipment Type</u>	<u>Difference</u>	<u>Compilation Error</u>	<u>Inactive/Stricken</u>	<u>Double Counting</u>	<u>Unsupported</u>
Aircraft (All Categories)	(6)	2	(7)	(1)	0
Ships (All Categories)	(621)	201	(915)	0	93
Missiles	0	0	0	0	0
Torpedoes	9,679	9,679	0	0	0
Satellites	0	0	0	0	0
Net Total Quantities	9,052	9,882	(922)	(1)	93
Absolute Total Quantities	10,306				

An addition error on the FY 1999 compilation understated the Torpedoes, and certain categories of ships and boats were understated in FY 1999 that required correction in FY 2000. Inactive/Stricken differences occurred because aircraft and ships were erroneously reported with active quantities in FY 1999. Contributing to the unsupported changes were various validations, adjustments, and error corrections made to FY 1999 quantities.

Air Force Beginning Balances. The Air Force used four automated systems in conjunction with manual data calls to compile the reported NDE data. Table 4 shows the breakdown and related reasons for the adjustments.

Table 4. Air Force Differences Between 9/30/99 Data and 10/1/99 Data

<u>Equipment Type</u>	<u>Difference</u>	<u>Compilation Error</u>	<u>Posting Delays</u>	<u>Inactive/Categorization</u>	<u>Unsupported</u>
Combat Aircraft	(1,119)	0	(19)	(1,100)	0
Airlift Aircraft	19	0	(4)	22	1
Other Aircraft	(1,165)	0	1	(1,164)	(2)
Strategic Missiles	(269)	0	0	(269)	0
Tactical Missiles	(18,507)	(15,471)	0	(3,470)	434
Satellites	4	0	0	0	4
Net Total Quantities	(21,037)	(15,471)	(22)	(5,981)	437
Absolute Total Quantities	21,083				

Compilation error occurred because tactical missiles were double counted in the systems in FY 1999. Posting delays resulted from adjustments to correct FY 1999 reported quantities prior to FY 2000 reporting. Inactive/Categorization changes occurred because inactive assets were erroneously reported with active quantities in FY 1999. Included in the definition for “inactive” were assets that were non-operational missiles or non-deployable missiles that could become “active” again.

Marine Corps. The Marine Corps used one automated system in conjunction with a manual data call to compile the reported ND PP&E data.

Table 5. Marine Corps Differences Between 9/30/99 Data and 10/1/99 Data

<u>Equipment Type</u>	<u>Difference</u>	<u>Compilation Error</u>	<u>Classification Change</u>	<u>Category Omission</u>	<u>Unsupported</u>
Tracked Vehicles	(136)	Note 2	Note 2	--	Note 1
Wheeled Vehicles	(1,652)	Note 2	Note 2	--	Note 1
Towed Vehicles	1,127	Note 2	Note 2	--	Note 1
Other	(13,554)	Note 2	Note 2	Note 3	Note 1
Net Total Quantities	<u>(14,215)</u>	--	--	--	--
Absolute Total Quantities	16,469				

- (1) The report to Congress did not contain explanations for the differences. General supporting information was available in the FY 2000 RSSI Statements.
- (2) The beginning balances for each category reflect upward and downward adjustments to the FY 1999 ending balances due to definitional changes, reclassifications, validations, reconciliations, and adjustments. Since there was no breakdown by quantities for each category, this table can only provide the “difference” and “categories.”
- (3) The report to Congress did not contain the “Other” category.

Additions and Deletions

Following is a description of how each Military Department prepared its report submission for additions and deletions.

Army Report Submission. For the Army, there were 7,336 additions and 21,359 deletions reported in the DoD Military Equipment Report. The Army attempted to use the Commodity Command Standard System (CCSS) for additions and deletions; however, system problems were encountered that ended the attempt. Instead, the Army used a manual data call to identify addition and deletion quantities. The Army Audit Agency (AAA) evaluated additions and deletions in depth, as described below.

AAA determined that the Army process and procedures used to identify and report quantities of ND PP&E equipment in its Required Supplementary Stewardship Report did not provide reasonable assurance that the data reported for additions and deletions were accurate and complete. AAA found that CCSS either overstated or understated additions because of time lapses between the date the equipment was received and the date that the equipment was recorded in CCSS. In addition, CCSS did not record equipment stored at contractor facilities and did not record equipment turned in by units or installations directly to Defense Reutilization and Marketing Offices for disposal. The CCSS also recorded deletions at the time disposition instructions were given instead of when the equipment was disposed of, which could have been months after the disposition instructions.

AAA also found that the manual data call did not prove to be effective. Item and asset managers tasked to compile the NDE data:

- did not retain documentation to support the quantities reported;
- computed additions based on the contractor shipment dates, instead of acceptance date; or they forced the numbers based on the difference between the beginning and ending balances; and
- computed deletions based on disposition instructions instead of the actual disposal dates; or they forced the numbers based on the difference between the beginning and ending balances.

AAA determined that the 4,829 additions identified in the initial data call were overstated and understated. For example, the Army received three Heavy Equipment Mobility Tactical Truck shipments at a depot in FY 2000 but accepted them into the Army's inventory in FY 1999, based on Army acceptance of the shipments at the contractor's plant. The Army reported the additions to the inventory in the year of receipt, FY 2000, although the shipments really entered the Army's inventory in FY 1999, resulting in an overstatement of the FY 2000 additions on the Military Equipment Report. In addition to the 835 deletions identified in the initial data call, total deletions were understated by at least 5,078 assets. AAA attributed many of these errors to a lack of timely guidance or training given to personnel that were tasked to compile the NDE data.

Navy Report Submission. For the Navy, there were 241 additions and 5,652 deletions reported in the DoD Military Equipment Report. One of the five Navy systems used for quantity reporting requires manual compilation or review for additions and deletes to the inventory. The Aircraft Inventory Readiness and Reporting System, the Conventional Ammunition Integrated Management System, the Craft and Boat Support System, and the Naval Vessel Register contain addition and deletion data, while the Missile History and Status Report System does not retain addition and deletion information. Regardless of how the data were compiled, there was a manual review and validation process for all the quantity data.

Air Force Report Submission. For the Air Force, there were 3,962 additions and 5,969 deletions reported in the DoD Military Equipment Report. As planned, the Air Force used the Reliability and Maintainability System and the Integrated Missile Data Base to compile additions and deletions data for aircraft and strategic missiles. Both systems contained additions and deletions data. The Air Force planned to use the Combat Ammunition System - Air Force Level and the Army's Standard Depot System to compile additions and deletions data for tactical missiles, even though the Air Force system did not track in-transit items and additions. To obtain tactical missile data, the Air Force relied heavily on data calls to item managers. The Air Force had no automated inventory system of record for satellites, and obtained the satellite data through three separate data calls.

Marine Corps Report Submission. For the Marine Corps, there were 1,834 additions and 2,199 deletions reported in the DoD Military Equipment Report. The Marine Corps used one system, the Materiel Capability Decision Support System, to compile inventory quantities. Another system, the Stock

Control System, contained addition and deletion data that were input into the Materiel Capability Decision Support System. System limitations required system analysts and item managers to use the Stock Control System to obtain the additions and deletions for the Military Equipment Report.

Ending Balances

Overall Ending Balance Verification. For all of the Military Departments, our physical inventories of 23,283 assets (3.6 percent of total assets reported) identified only 87 errors (99.6 percent accuracy level) in the unit level property books, indicating these records to be reliable. However, at the overall reporting level, based on discrepancies in the beginning balances, additions, and deletions previously discussed, the ability of the Military Departments to support ending balance quantities would be questionable under any circumstances. Additionally, we were not able to trace the inventory results at the locations we visited into the final ending balances in the Military Equipment Report because of system deficiencies and missing supporting documentation. We could have compared our quantities with system balances, but we would have needed to visit many item managers to see whether the reports actually included our quantities in the ending balances.

Army Ending Balances. The Army could not rely on its three worldwide logistics systems to determine ending balances. Specifically, the three logistics systems were the CBS-X for retail items, CCSS for wholesale items, and the Worldwide Ammunition Reporting System for missiles. CCSS was over-reporting at one wholesale location, and Army personnel told us that over-reporting could apply to many wholesale locations. For example, CCSS was reporting 1 helicopter and 650 tanks at Fort Hood, Texas. However, unit personnel stated that there were never any helicopters assigned to them, and that the 650 tanks would be a consolidation of all the tanks passing through this wholesale unit after they had been converted but before they were issued to the gaining unit, rather than the number of tanks assigned at one particular time. Personnel estimated the number of tanks assigned as of September 30, 1999, would be less than 20. Although our inventories determined that unit level accountability was good for retail items, we found discrepancies between the unit level logistics records and CBS-X at 15 of the 120 Army units visited. Additionally, 15 non-missile defense items that Army included in the reports were not picked up in CBS-X. Neither CBS-X nor CCSS tracked items down to identification number for exact identification of discrepancies.

Because of problems with the above systems, the Army relied heavily on input from item managers for all aspects of the report. For most vehicles and for ships, report compilers compared quantities per CBS-X and CCSS with the results of item manager figures for ending balances but generally accepted the item manager figures when differences occurred. For the 5,306 aircraft, 298,384 missiles, and 2,107 missile-related vehicles, only item manager figures were used.

Navy, Air Force, and Marine Corps Ending Balances. Because of the late issuance of the Military Equipment Report, we could not perform a verification of the ending balance of each category. In addition to the short timeframe for reviewing the report, preliminary inquiries into the availability of the documents

revealed that the Military Departments' designated points-of-contact did not have detailed information down to the unit level. For example, Air Force tactical missile data were provided directly by item managers. Therefore, trying to match our audit results to the different logistics systems was impossible for some of the systems.

Systems data were actually used and were accurate in some cases. For the Navy, we used the Naval Vessel Register to perform our inventory of ships and, therefore, no reconciliation was necessary. For the Air Force, systems data for aircraft and strategic missiles were reported with few changes.

Military Department Categorization of Military Equipment

The Military Departments' designation of what constitutes military equipment has been inconsistent. Each Military Department interpreted differently which assets met the definition of military equipment. Therefore, significant variation was reflected in the types of assets included in the Military Equipment Report.

Army Designation of Military Equipment. The Army reported wheeled vehicles listed under 34 different National Stock Numbers, whereas the Marine Corps reported wheeled vehicles listed under 51 different National Stock Numbers. For example, the Marine Corps reported 7,568 vehicles for National Stock Numbered dump trucks, 5-ton cargo trucks, and forklift trucks in the Military Equipment Report. However, the Army considers 93 other National Stock Numbered combat wheeled vehicles, including 5-ton trucks, as ND PP&E Support Equipment and not as major end items and, therefore, does not report them. We do not have applicable FY 2000 data, but per the FY 1999 data, 19,700 vehicles listed under these 93 National Stock Numbers would not be included in the Military Equipment Report. In addition, the Army reported 1,513 uninstalled aircraft engines as inventory rather than as PP&E. The Army did not report an unknown number of High Mobility Multipurpose Wheeled Vehicles (HMMWVs) to which communication equipment had been added. Such vehicles are Marine Corps-managed items, and we have been unable to obtain the quantity held by the Army from either the Army or the Marine Corps.

Navy Designation of Military Equipment. The Navy used the DoD Regulation 7000.14R, volume 6B to define and report military equipment. Accordingly, the Navy did not report uninstalled aircraft engines as military equipment. The 3,914 uninstalled aircraft engines were reported under the Inventory and Related Property line on the FY 2000 balance sheet and not reported in the Military Equipment Report. Additionally, any combat vehicles that the Navy uses are controlled and reported by the Marine Corps.

Air Force Designation of Military Equipment. Unlike the Army and Marine Corps, the Air Force did not report 3,063 standard HMMWVs, 910 communication type HMMWVs, or any combat vehicles in the Military Equipment Report. Instead, the Air Force considers these vehicles as General PP&E. Although recognized in their FY 2000 RSSI report in a narrative under the Aircraft Support Principal End Items, 5,722 uninstalled aircraft engines were not included in the Military Equipment Report.

Marine Corps Designation of Military Equipment. The Marine Corps and the Army had HMMWVs with and without communication equipment. The HMMWVs with communication equipment were classified as support principal end items in the communication equipment category. Because DoD did not report quantities in the support principal end item category and communication equipment was not a reported NDE category, the 1,510 HMMWVs with the communication equipment were not reported. When the communication equipment is removed from the HMMWV, the vehicle is returned to NDE status and is reported as NDE.

Office of the Secretary of Defense Initiative

On December 6, 2000, the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller) established a Property, Plant, and Equipment Program Management Office (PP&E PMO) to coordinate and oversee DoD efforts to resolve existing property, plant, and equipment accountability, accounting, and reporting problems. Included in the efforts will be to develop and implement the necessary procedures and policies to comply with the reporting standards whenever they are finalized by the Board. This office is composed of personnel from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Office of the Under Secretary of Defense (Comptroller).

Conclusion

The Military Equipment Report to Congress did not provide accurate information supported by both accurate records and consistently applied criteria for categorizing and reporting approximately \$700 billion of military equipment. Our inventories showed that the unit level property book records were 99.6 percent accurate. However, numerous systems, data calls, and item manager adjustments were used to compile the data from those unit level systems to the Military Equipment Report. Moreover, there were significant differences, which we were unable to trace. Over the years, DoD has recognized the problems with financial and logistics systems used to monitor both National Defense and General PP&E. DoD efforts to address the problem have been hampered by changing reporting criteria that remains undecided. Until the Financial Accounting Standards Advisory Board determines what and how ND PP&E will be reported, DoD will not be able to finalize policies and procedures for use by the Military Departments. Because of the ongoing efforts by the PP&E PMO and the uncertainty of reporting criteria, we have not included specific recommendations.

Management Comments and Audit Response

Management Comments. The Director, Acquisition Resources and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics disagreed that Congress and DoD cannot rely on the Military Equipment Report because it does not provide accurate or consistent information. The Director stated that the Military Equipment Report was not intended to be used for decision making. Rather, the Military Equipment Report, and the audit by Inspector General, Department of Defense, were directed by the Congress to assess whether the Department's military equipment is properly controlled.

The Director further states that the Military Departments use numerous logistics and property systems to manage and control military equipment. The logistics and property systems were never designed to provide summary information, as required in the Military Equipment Report, with beginning and ending balances and identification of additions and deletions. Therefore, the Military Departments had to rely on data calls to supplement information from various systems and item managers to summarize the information for the report. Using data calls, manual-tracking systems, and information from item managers does not necessarily result in unreliable information. Rather, it makes conducting an audit more difficult, and as indicated by the report, very little was done by the auditors to assess the reliability of the reported amounts because of time constraints.

The Director also stated that Section 363 of Public Law 106-65 did not require a reconciliation between the ending balances of the National Defense Property, Plant, and Equipment Quantity Report contained in the FY 1999 DoD financial statements and the opening balances of the Military Equipment Report. The Director stated that the changes came about from policy and classification changes and reporting improvements. The Director believes that the manner in which we report the differences implies numerous inaccuracies and errors when, in fact, the differences were the result of improvements in the presentation and quality of the information.

The Director stated that although the Military Departments do not manage military equipment from summary reports, such as the Military Equipment Report, the Department recognizes that such reporting requirements will be required for annual financial statement reporting purposes. Therefore, the Military Departments are presently modifying existing systems or incorporating such reporting requirements in new system acquisitions.

Audit Response. Management's primary nonconcurrence relates to what we see as the effect of the conditions noted. Management assumes that no one will be making any decisions based on the Military Equipment Report. In addition, management believes that using data calls, manual tracking, and input from item managers does not necessarily result in unreliable data. We agree that it is theoretically possible to use numerous systems and other means of gathering data and still arrive at accurate numbers in the report. However, DoD could not provide all the necessary documents to support the numbers obtained through all these methods, and thus the accuracy of the numbers in the report cannot be supported. Furthermore, the multiple avenues used to gather the data increase the possibilities for human errors in manual tracking and item manager input.

Management stated that it was pleased with the results of the subject audit confirming that military equipment is well controlled by the Military Departments. However, we believe that management misunderstood what our report indicated. Specifically, military equipment is well controlled at the unit level, but at the DoD level, no one has an accurate inventory of military equipment.

We have reviewed both Public Law 106-65 and the committee minutes related to it. This review clearly demonstrated congressional concerns about visibility of the logistics systems and senior management oversight of military equipment. As stated in the Public Law, Congress defined military equipment to be that which is used in support of military missions and is maintained on the visibility systems of the Army, Navy, Air Force, or Marine Corps. In the committee minutes, members

addressed findings from previous audits that many of the discrepancies are simply the result of poor record keeping on the part of the Military Departments. The committee is concerned that the poor record keeping demonstrates a lack of oversight and control on the part of senior leadership. Such oversight and control is essential to ensuring that the resources of the Department are efficiently and effectively managed, and that military equipment is not inappropriately disposed of through sale or transfer. Based on these concerns, stating that the accuracy rate at the unit level is 99.6 percent demonstrates only the control existing at the unit level, not at the level of senior management. The report addresses the problem with summary systems that would be available to senior management. The report further shows that there is no direct relationship between those records with the 99.6 percent accuracy rate and the summary systems used to prepare the Military Equipment Report.

DoD should have pointed out and explained the differences between prior year ending balances and current year beginning balances even though the Public Law did not explicitly require it. Many of the adjustments to beginning balances were made because of inaccuracies and errors in FY 1999 reporting, not just because of policy and classification changes. The magnitude of these corrections can be seen in the "Compilation error" columns of Tables 2, 3, and 4. Correction of inaccuracies and errors does improve the quality of the information, but unexplained differences from prior year reporting reduce its credibility.

Appendix A. Audit Process

Scope

Work Performed. We conducted physical inventories from the total 643,254 military equipment assets assigned to the Military Services. Our inventories covered active, reserve, and guard units. The equipment inventoried included 23,283 items, or 3.6 percent of assets such as aircraft; ships; boats; tracked, towed, and wheeled vehicles; missiles; torpedoes; and uninstalled aircraft engines.

We reviewed the property books for each unit we visited at an installation. We performed both existence and completeness testing at each unit through “book-to-floor” and “floor-to-book” sample inventories. For the Army units, we attempted to reconcile unit property books against quantities reported in the Army primary logistics system, CBS-X. For discrepancies discovered during the physical inventory, we obtained documentation to support the existence of the asset or justification for property book errors.

Limitations to Scope. There were three limitations on the audit work. First, because the DoD Military Equipment Report was only issued March 6, 2001, we did not have sufficient time for complete analysis of the final report. Second, the Military Services did not provide the detailed supporting information for us to reconcile our results at the unit level. Third, time constraints and the number of logistics systems precluded the use of statistical sampling and overall projections.

DoD-Wide Corporate-Level Government Performance and Results Act

Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following corporate-level goal, subordinate performance goals, and performance measure:

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**
- **FY 2001 Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department’s support structure and pursuing business practice reform. **(01-DoD-2.3)**
- **FY 2001 Performance Measure 2.3.5:** Visibility and Accessibility of DoD Material Assets. **(01-DoD-2.3.5)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management and Defense Inventory Management high-risk areas.

Methodology

Use of Computer-Processed Data. To achieve the audit objectives, we used computer-processed data contained in the following databases:

Military Services' Databases	
Army	Continuing Balance System – Expanded Standard Depot System Commodity Command Standard System Standard Property Book System – Redesigned Defense Property Accountability System Army Medical Department Property Accounting System Worldwide Ammunition Reporting System Standard Army Ammunition System—Modified Distribution Standard System
Navy	Aircraft Inventory Readiness and Reporting System Aircraft Engine Management System Naval Vessel Register Conventional Ammunition Integrated Management System Missile History Tracking Report Craft and Boat Support System Retail Ordnance Logistics Management System Manufacturing, Resources, and Planning
Air Force	Reliability and Maintainability Information System Combat Ammunition System Integrated Missile Data Base Comprehensive Engine Management System Standard Depot System (Army system) Core Automated Maintenance System Core Automated Maintenance System for Mobility (G081)
Marine Corps	Stock Control System (SCS) Mechanization of Warehousing and Shipment Processing (MOWASP) Asset Tracking for Logistics Supply System (ATLASS) Asset Tracking for Logistics Supply System (ATLASS II+) Supported Activities Standard Supply System (SASSY)

Although we noted problems with some of these systems, we did not perform a formal reliability assessment of the data. However, not establishing the reliability of the databases did not affect the results of our audit. The Military Departments also used manual systems, data calls, and considerable manual processing to gather the quantities for this audit.

Selection Criteria for Equipment Inventoried. We judgmentally selected 15 pieces of equipment from a unit property book and attempted to locate this equipment. If the item could not be located, we requested and received documentation stating the item's location. This satisfied our existence test. We then judgmentally selected 10 pieces of equipment from the floor to reconcile with the property book. If any of the items were not listed on the property book, we obtained supporting documentation showing why the equipment was in the unit's possession. This satisfied our completeness test.

In the case of the Air Force, the Air Force Audit Agency inventoried tactical missiles for this audit effort. All missiles were inventoried for each installation visited. Office of the Inspector General, DoD, auditors inventoried the remaining military equipment using the previously mentioned criteria.

At each retail unit in the Army, four pieces of equipment were judgmentally pre-selected for existence testing, and another four pieces were judgmentally selected from the floor for completeness testing. Only 8 items from each unit were inventoried because up to 17 units per installation were visited. A considerably larger number of items were examined at the wholesale locations visited.

Audit Type, Dates, and Standards. We conducted this financial-related audit from October 2000 through April 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. A list of locations visited is in Appendix C. Further details are available on request.

Management Control Program Review

Management control programs were not reviewed because they were not required to meet the requirements of Public Law 106-65.

Appendix B. Prior Coverage

General Accounting Office

General Accounting Office, Report No. AIMD-98-196R, "DoD Mission Asset Existence Verification," May 29, 1998

General Accounting Office, Report No. AIMD-98-17, "Army Logistics Systems-Opportunities to Improve the Accuracy of Army's Major Equipment Item Systems," January 23, 1998

Inspector General, DoD

Inspector General, DoD, Report No. D-2001-011, "Prior Period Adjustment to Remove National Defense Property, Plant, and Equipment from the DoD Agency-Wide Balance Sheet," November 16, 2000

Inspector General, DoD, Report No. D-2000-165, "Prior Period Adjustments to Remove National Defense Property, Plant, and Equipment from the Army General Fund Balance Sheet," July 21, 2000

Army

Army Audit Agency Report No. AA 99-191, "Army's Principal Financial Statements for Fiscal Year 1998: Supplemental Stewardship Reporting of National Defense Equipment," March 26, 1999

Army Audit Agency Report No. AA 99-112, "Army's Principal Financial Statements for Fiscal Years 1998 and 1997 – Financial Report of Equipment – Followup Issues," January 15, 1999

Army Audit Agency Report No. AA 99-108, "Army's Principal Financial Statements for Fiscal Years 1998 and 1997 – Reportable Item Control Codes," December 31, 1998

Navy

Naval Audit Service Report No. N2000-0043, "Department of the Navy Required Supplementary Stewardship Information Report for Fiscal Year 1999: National Defense Property, Plant and Equipment," September 25, 2000

Naval Audit Service Report No. 046-99, "Department of the Navy Principal Statements for Fiscal Year 1998: National Defense Property, Plant and Equipment Deferred Maintenance," July 15, 1999

Air Force

Air Force Audit Agency Report No. 99053008, "Supplementary Stewardship Reporting, Fiscal Year 1999," July 31, 2000

Air Force Audit Agency Report No. 98053008, "Supplementary Stewardship Reporting, Fiscal Year 1998," September 22, 1999

Air Force Audit Agency Report No. 96054009, "Combat Ammunition System," January 17, 1997

Appendix C. Locations Visited

In conjunction with the Army Audit Agency and on a limited basis with the Air Force Audit Agency, we conducted a test of inventory balances at 55 stateside and 14 overseas military installations. At these installations, we inventoried 231 units. We also performed inventories at eight Special Operations Command (SOCOM) units. The inventories also included a limited review of “wholesale” activities. Specifically, we performed inventories at three Army, one Air Force, and one Marine Corps wholesale activity. At these installations, we conducted physical inventories of National Defense Equipment or military equipment considered “ready-for-war,” such as aircraft, tanks, ships, boats, combat vehicles, missiles, torpedoes, and the like.

Army

- Anniston Army Depot, AL (Wholesale activity)
- Reserve Unit, Anniston, AL
- Armstrong Barracks, Buedingen, Germany
- Austin National Guard, Austin, TX
- Camp Carroll, Taegu, Korea (Wholesale activity)
- Camp Coiner, Korea
- Camp Henry, Korea
- Camp Humphreys, Korea
- Camp Walker, Korea
- Fort Belvoir, VA
- Fort Bragg, NC (including SOCOM and Reserve units)
- Fort Campbell, KY (including SOCOM units)
- Fort Hood, TX (including Wholesale activity)
- Fort Irwin, CA (including National Guard unit)
- Fort Lewis, WA (including National Guard and SOCOM units)
- Fort Stewart, GA (including National Guard unit)
- Grossauheim, Hanau, Germany
- Huter Kaserne, Hanau, Germany
- Los Alamitos National Guard, CA
- Pioneer Kaserne, Hanau, Germany
- Redstone Arsenal, Huntsville, AL
- Seoul Air Base, Korea
- Underwood Kaserne, Hanau, Germany
- Warner Barracks, Bamberg, Germany
- Yongsan, Seoul, Korea
- Yorkhof Kaserne, Hanau, Germany

Total Army Installations Visited: 26

Navy

- Coronado Naval Amphibious Base, San Diego, CA
- Fallbrook Naval Weapons Station, CA
- Naval Air Station Jacksonville, FL (including Naval Reserve units)
- Naval Air Station Lemoore, CA
- Naval Air Station North Island, San Diego, CA
- Naval Air Station, Oceana, VA (including Reserve unit)
- Naval Amphibious Base Little Creek, Norfolk, VA
- Naval Station Mayport, FL
- Naval Station Norfolk, VA (including Reserve unit)
- Naval Station San Diego, CA
- Naval Submarine Base Kings Bay, GA
- Naval Weapons Station China Lake, CA
- Naval Weapons Station Yorktown, VA
- Naval Submarine Base, San Diego, CA
- Seal Beach Naval Weapons Station, CA

Total Navy Installations Visited: 15

Air Force

- Barksdale Air Force Base, LA (including Reserve unit)
- Beale Air Force Base, CA (including Reserve units)
- Davis-Monthan Air Force Base, AZ
- Dover Air Force Base, DE
- Edwards Air Force Base, CA
- Eglin Air Force Base, FL (including SOCOM and Reserve units)
- Kelly Air Force Base, TX (including Reserve and Guard units)
- Laughlin Air Force Base, TX
- March Air Reserve Base, CA (including Reserve and Guard units)
- Nellis Air Force Base, NV
- New Orleans Naval Air Station, LA (including Reserve and Guard units)
- Randolph Air Force Base, TX
- Sheppard Air Force Base, TX
- Tinker Air Force Base, OK (including Reserve unit)
- Travis Air Force Base, CA
- Tyndall Air Force Base, FL

Total Air Force Installations Visited: 16

Marine Corps

- Camp Lejeune, Jacksonville, NC (including Reserve unit)
- Camp Pendleton, San Diego, CA (including Reserve unit)
- Marine Corps Air Ground Combat Center, 29 Palms, CA
- Marine Corps Air Station Cherry Point, NC
- Marine Corps Air Station Miramar, CA
- Marine Corps Air Station New River, NC
- Marine Corps Air Station Yuma, AZ
- Marine Corps Base Quantico, VA
- Marine Corps Logistics Base Barstow, CA

Total Marine Corps Installations Visited: 9

SOCOM

- AFSOC Headquarters, Hurlburt Field, FL
- Duke Field, FL
- NAVSPECWARCOM Headquarters, San Diego, CA

Total SOCOM Installations Visited: 3

Appendix D. Compilation of Data

Army. The Army used the following systems, plus a partial data call, for compiling data for the Military Equipment Report:

- Commodity Command Standard System (CCSS) is responsible for maintaining, collecting, and validating data for all categories of equipment.
- Continuing Balance System – Expanded (CBS-X) is responsible for visibility for Army major end items and selected secondary assets.
- Worldwide Ammunition Reporting System (WARS) is responsible for maintaining, collecting, and validating data for missiles.

The Aviation and Missile Command and the Tank and Automotive Command validated the data. The Logistics Support Activity (LOGSA) collected the data and produced the final reports. Manual validation and adjustments were applied to quantities in all categories.

The method of compiling data varied according to the type of item. Overall compilation for aircraft, missiles, and missile-related vehicles was accomplished by the Aviation and Missile Command. Overall compilation of other vehicles and ships was accomplished by a group at LOGSA.

- For missiles, item managers checked whichever records they preferred to use for the FY 2000 beginning balances. Item managers obtained addition and deletion information from the same sources as the beginning balances, although WARS does not provide a good transaction trail. The item managers only track wholesale quantities routinely so they have to rely on the Worldwide Ammunition Reporting System for retail quantities.
- For aircraft additions, deletions, and balances, item managers used their own spreadsheet systems where they actually track wholesale and retail aircraft by tail number.
- The applicable program managers supplied missile-related vehicle figures. The Aviation and Missile Command statement compiler had no knowledge of where they got the numbers. These items were not reported in FY 1999.
- For FY 1998 and FY 1999, a group at the LOGSA compiled all of the National Defense PP&E quantities, using CCSS, CBS-X, and the results of a data call. For FY 1999, these figures were ultimately not used for aircraft and missiles but were used for other categories. To count vehicles and ships for FY 2000, the LOGSA group again used CBS-X, CCSS, and a data call, but combined these results with figures from the item managers at the Tank and Automotive Command.

Navy. Data for all categories of equipment were compiled from manual data calls via electronic spreadsheets. The data were reviewed, compiled, and validated by the Assistant Secretary of the Navy (Research, Development, and Acquisition) - Ship Programs.

The Navy used the following systems for compiling data for the Military Equipment Report:

- Aircraft Inventory Readiness and Reporting System is responsible for maintaining, collecting, and validating data for aircraft.
- Naval Vessel Register is responsible for maintaining, collecting, and validating data for ships.
- Craft and Boat Support System is responsible for maintaining, collecting, and validating data for small boats.
- Missile History Tracking Report is responsible for maintaining, collecting, and validating data for ballistic missiles.
- Conventional Ammunition Integrated Management System is responsible for maintaining, collecting, and validating data for conventional missiles.

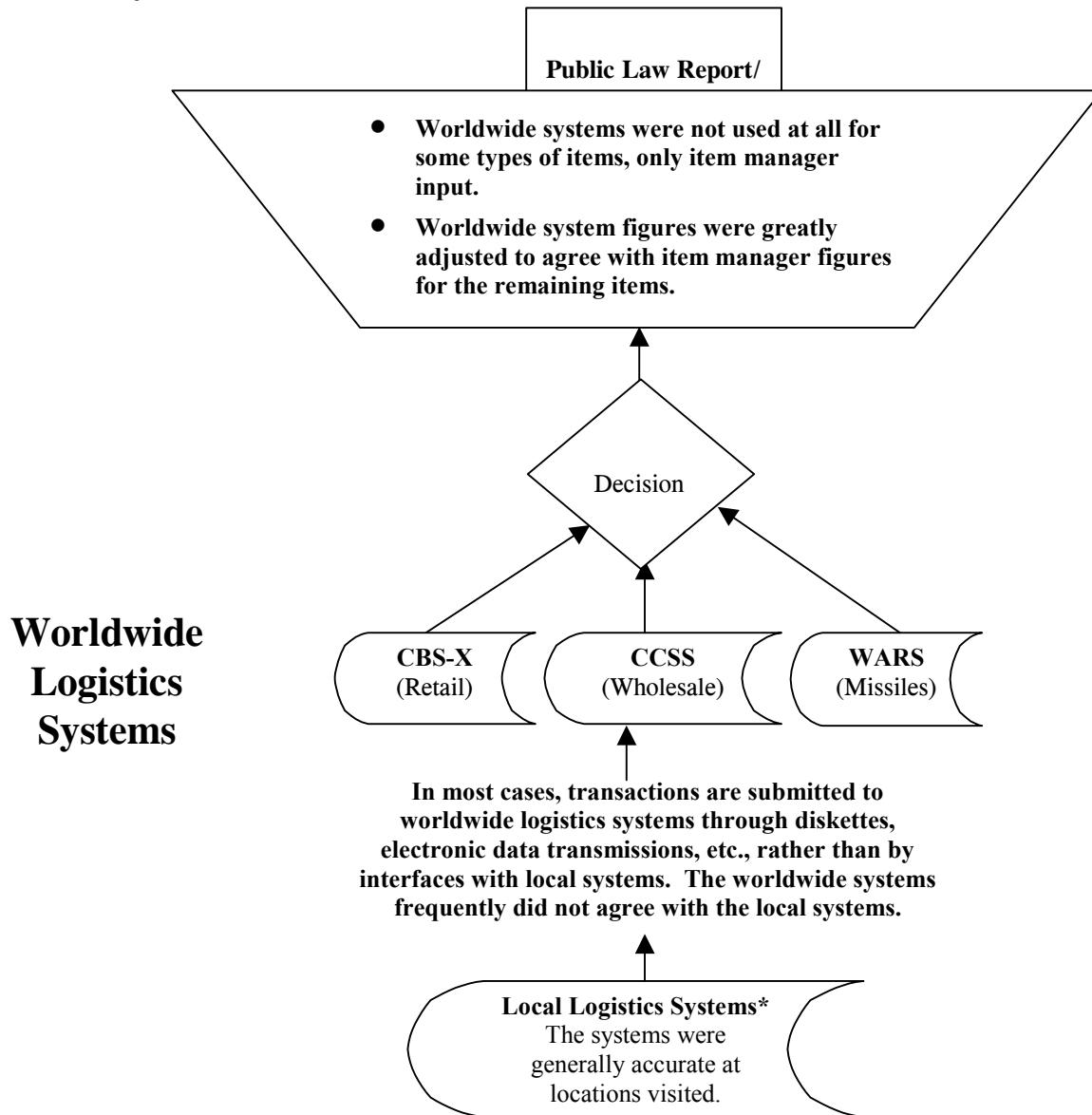
Air Force. The Air Force used the Reliability and Maintainability Information System and the Integrated Missile Data Base to compile the data for operational aircraft, Intercontinental Ballistic Missiles (ICBMs), and cruise missiles. For the operational aircraft and cruise missiles, the Air Force requested reports on-line and manually adjusted the data to place them in the required reporting format. For the ICBMs, the Air Force will only report up to the number of silos because there cannot be more ICBMs than there are silos. For tactical missiles, the Combat Ammunition System-Air Force and Army Standard Depot System are used to compile data. However, Combat Ammunition System-Air Force does not track in transit assets and additions to the inventory.

There is no current automated inventory system of record for the recording and tracking of satellites. The Air Force collected the data through three separate data calls.

Marine Corps. The Marine Corps extracted inventory information from the Materiel Capability Decision Support System, which is located in Albany, Georgia. The Materiel Capability Decision Support System interfaces with and receives file updates from other logistics systems. Once the data were extracted from the Materiel Capability Decision Support System, the applicable weapon system manager validated and reconciled them.

Appendix E illustrates the process used by the Military Services to compile the data for the Military Equipment Report.

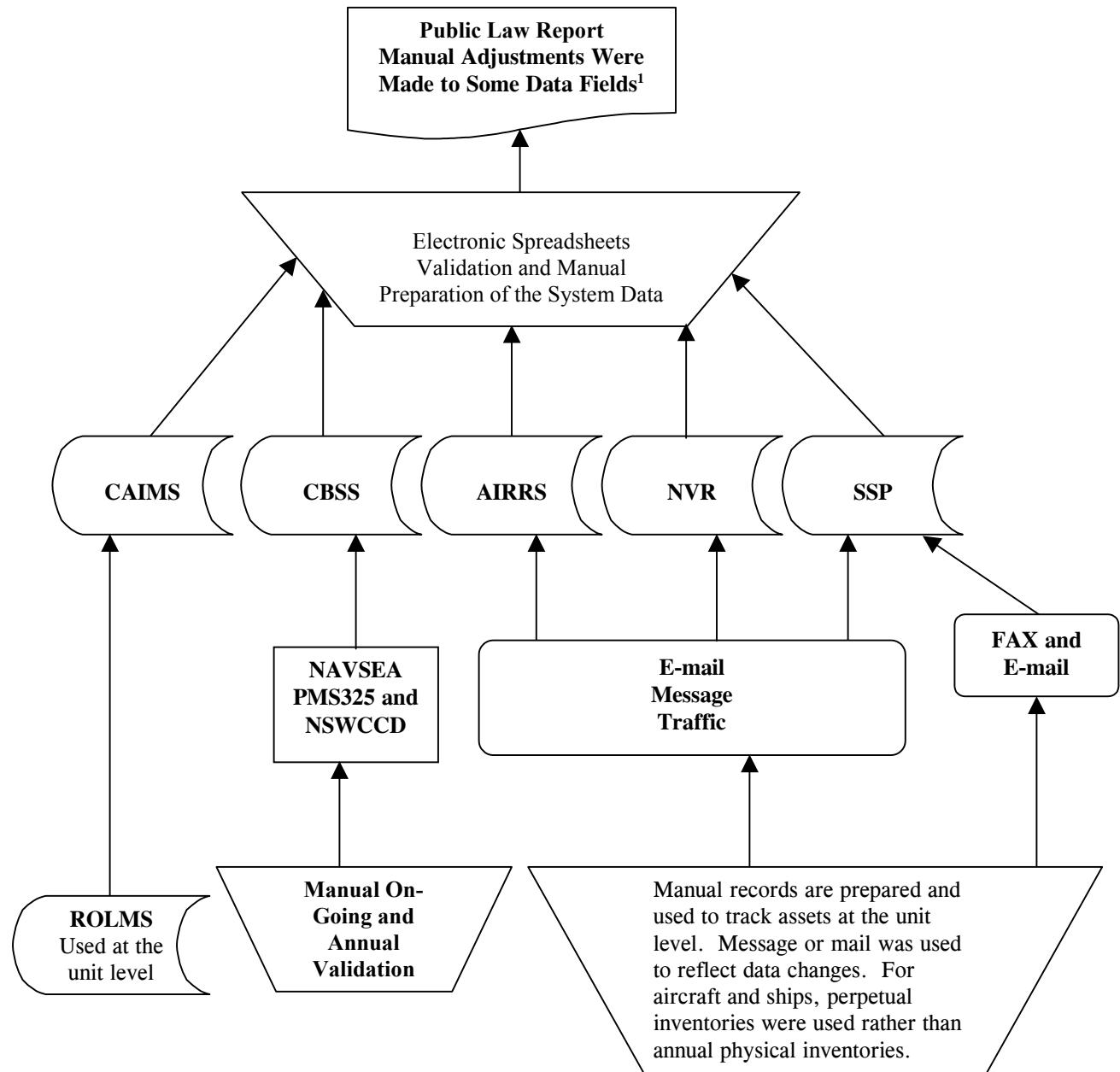
Appendix E. Data Gathering Process Army



*Local Logistics Systems:

Standard Property Book System – Redesigned – Unit Level
Defense Property Accountability System – Unit Level
Army Medical Department Property Accounting System – Unit Level
Standard Army Ammunition System – Modified – Unit Level (Missiles)
Standard Depot System – Wholesale Level
Distribution Standard System – Wholesale Level
Manual Systems – Unit Level and Wholesale Level

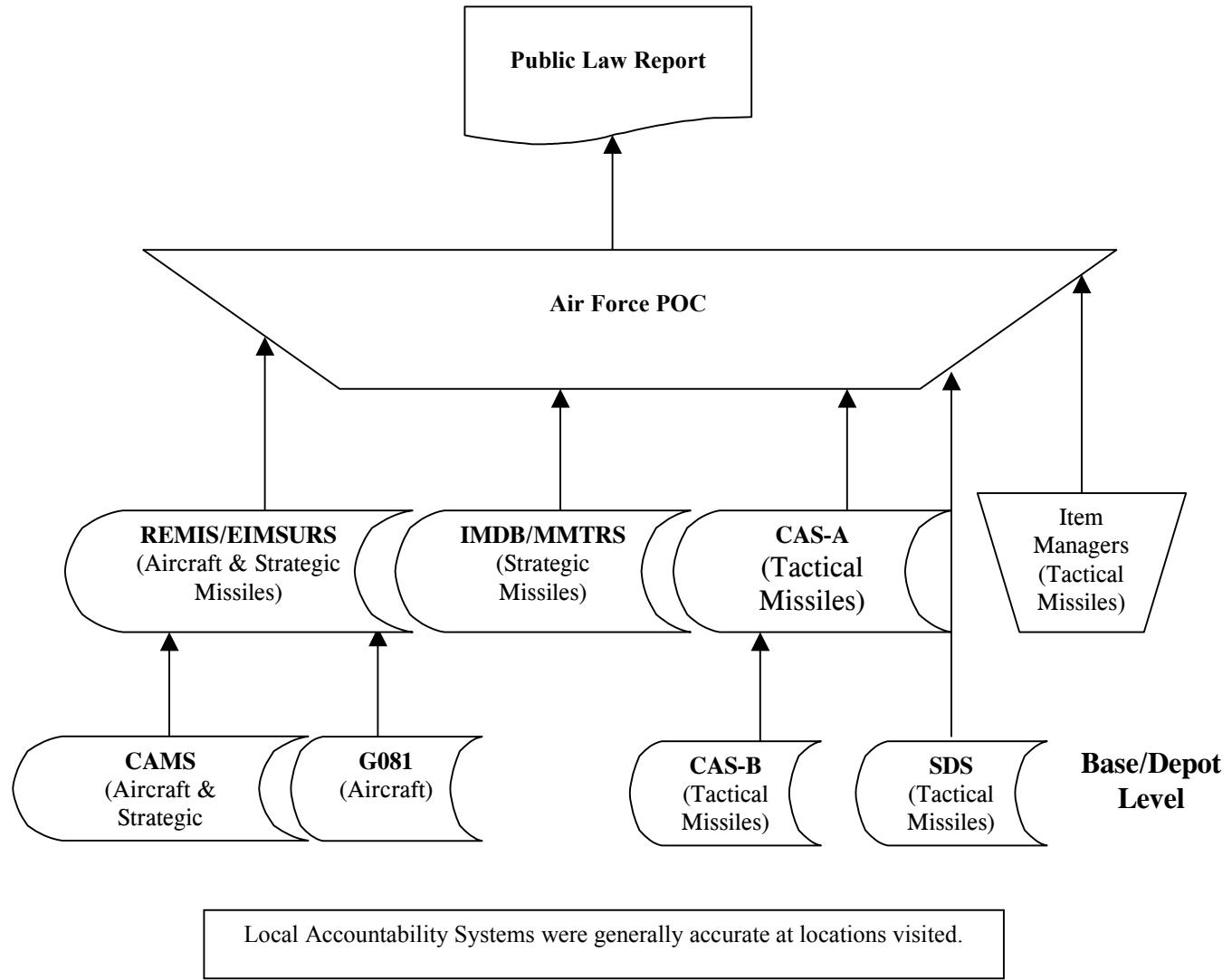
Navy



¹ There were no Public Law Report adjustments to the SSP quantities.

Air Force

Aircraft and Strategic Missiles, Reliability and Maintainability Information System/Equipment Inventory, Multiple Status, Utilization Reporting Subsystem, and the Integrated Missile Data Base were reported largely without adjustments, although adjustments were made, for example, for delayed postings. For Tactical Missiles, much of the data were provided directly by the item managers.



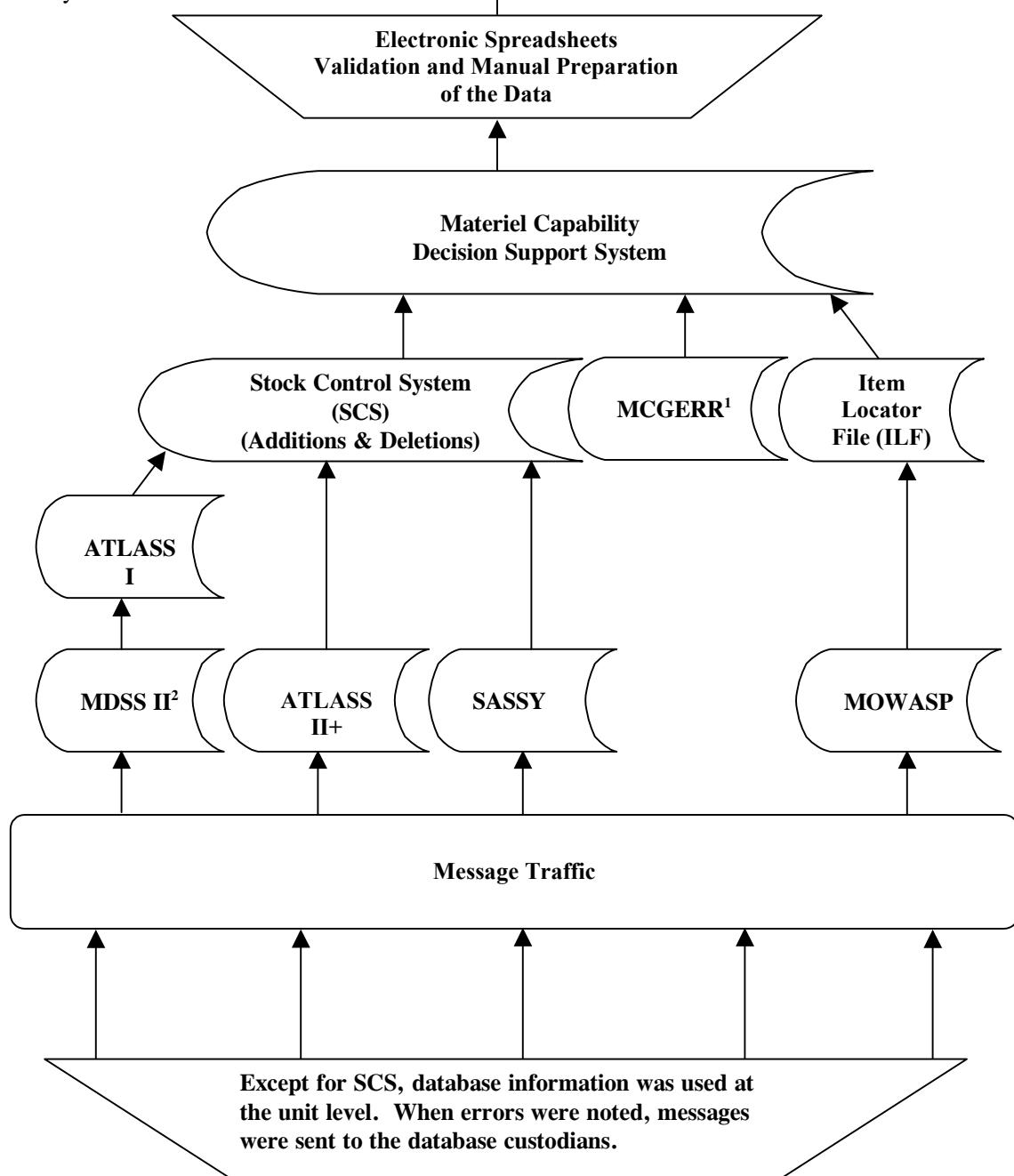
Marine Corps

Note: this chart does not include all main feeder systems nor all of the systems subordinate to the feeder systems shown.

**Public Law Report
Manual Adjustments Were
Made to Some Data Fields**

***Other Feeder Systems Used:**

Logistics Management Information System
Loaded Unit Allowance File
Depot Maintenance Float Allowance
War Reserve Material Requirement
Standardized Accounting & Budgeting System



¹ MCGERR – Marine Corps Ground Equipment Readiness Reporting

² MDSS II – MAGTF Deployment Support System II

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Under Secretary of Defense (Comptroller)

 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Office of the Inspector General, Department of Defense, Draft Audit Report,
"Assessment of Inventory and Control of Defense Military Equipment"
(Project No. D2001FH-004).

The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD(AT&L)) is pleased with the results (99.6 percent accuracy rate) of the subject audit that confirm that military equipment is well controlled by the Military Services. Providing such a finding to the Congress will reassure congressional members that the Department of Defense's (DoD) critical assets are properly safeguarded.

The audit report also indicates that the Congress and DoD cannot "rely" on the Military Equipment Report because it does not provide accurate or consistent information. The OUSD(AT&L) does not concur with this finding. The Military Equipment Report was not intended to be used for decision making. Rather, the Military Equipment Report, and the audit by the OIG, DoD, were directed by the Congress to assess whether the Department's military equipment is properly controlled. As noted above, the draft audit report demonstrates that the Military Departments' military equipment is controlled.

As stated in the draft audit report, the Military Departments utilize numerous logistics and property systems to manage and control military equipment. The logistics and property systems were never designed to provide summary information, as required in the Military Equipment Report, with beginning and ending balances and identification of additions and deletions. Therefore, the Military Departments had to rely on data calls for information from various systems and item managers to summarize the information for the report. Utilizing data calls, manual-tracking systems and information from item managers does not necessarily result in unreliable information. Rather, it makes conducting an audit more difficult, and as indicated by the draft audit report, very little was done by the OIG, DoD, to assess the reliability of the reported amounts because of time constraints.

Although the Military Departments do not manage military equipment from summary reports, such as the Military Equipment Report, the Department recognizes that such reporting requirements will be required for annual financial statement reporting purposes. Therefore, the Military Departments are presently modifying existing systems or incorporating such reporting requirements in new system acquisitions.

Additional comments are provided in the attachment to this memorandum.



My point of contact for this matter is Mr. Stephen L. Tabone. He may be reached by email at: stephen.tabone@osd.mil or telephone (703) 697-8580.

Nancy L. Spruill

Nancy L. Spruill
Director, Acquisition Resources
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Attachment

**DEPARTMENT OF DEFENSE
COMMENTS ON
OFFICE OF THE INSPECTOR GENERAL, DOD, DRAFT AUDIT REPORT
"ASSESSMENT OF INVENTORY AND CONTROL OF DEFENSE MILITARY
EQUIPMENT"
(PROJECT NO. D2001FH-004)**

General Comments

The draft audit report states that the Congress and DoD cannot rely on the Military Equipment Report because it does not provide accurate or consistent information. As indicated in the audit report, the Office of the Inspector General, Department of Defense (OIG, DoD), conclusion is predominantly based on the following: logistics systems do not provide detailed information, inconsistent military equipment definitions and the use of data calls, manual tracking systems, and item manager reviews. The use of data calls, manual tracking systems and item manager reviews do not indicate inaccurate reporting, but rather, they describe the process necessary to compile information from numerous systems within the Military Departments.

The reporting of summarized quantities of military equipment information reflecting balances for the beginning and end of the year, as well as addition and deletion information, is a new reporting requirement and serves no useful purpose to the Department. The Military Departments' logistics and property systems were not designed for such summarized reporting purposes. Furthermore, there is no single logistics or property system within any of the Military Departments that contains information on all of their military equipment, and there may never be, because military equipment is managed by various communities within the Military Departments. Therefore, in order to compile and summarize the information for the Military Equipment Report, lead offices within the Military Departments had no other alternative than to use data calls and rely on item managers for information.

The lack of detailed information in logistics systems, as stated in the draft report, as an indicator that the Military Equipment Report is inaccurate, pertains to a lack of military equipment identification or serial numbers in some logistics systems. Many logistics systems do contain identification or serial number information, but some do not. Tracking equipment at that level of detail has not been previously necessary for all types of military equipment. However, to meet similar future reporting requirements, the Military Departments are changing their systems. Nevertheless, the lack of identification or serial numbers in certain logistics systems is not an indicator that such systems are not reliable or that military equipment is not controlled. However, the lack of identification or serial numbers makes the auditors' verification tasks more time consuming and difficult.

The audit report also indicates that inconsistent definitions were used by the Military Departments. Inconsistent definitions do not render the Military Equipment Report inaccurate. If the Military Equipment Report was intended to be used for decision making, rather than as a means for determining whether military equipment is properly controlled, standard definitions

would have been used to support such decision making, and the report would have been prepared accordingly. Instead, when the Department planned for the preparation of the Military Equipment Report, differences in categorizations (definitions) of military equipment from one Service to another Service were considered, but it was agreed that the categorization to be used would replicate the categorization used in a report included in the annual DoD financial statements.

Since FY 1998, the Department has been voluntarily reporting quantities of military equipment in annual DoD financial statements. In doing so, the Department has been engaged in reviewing military equipment definitions and categorizations and making changes to improve the presentation of the information reported. The reporting categories are based on the type of equipment and how it is used, which varies by Military Service. As discussed above, the Department chose to structure the Military Equipment Report similarly to the DoD financial statement report. Therefore, there are differences from one Service to another Service regarding what military equipment was reported, but such differences are not an indicator that such equipment is not adequately controlled or accounted for in Military Service systems.

Revised

Specific Comments:

OIG, DoD Draft Audit Report: Page i, "Results," first sentence of the third paragraph, "The logistics systems used to compile the report could not provide detailed information."

DoD Response: This statement implies that all DoD logistics systems do not maintain detail information, which is not accurate. Many of the Department's logistics systems do track military equipment by identification or serial number. For example, the Aircraft Inventory Readiness and Reporting System (AIRRS) maintains accountability for Navy aircraft and records aircraft by bureau number. In addition, the Department is engaged in efforts to change certain logistics systems that do not capture this information

OIG, DoD Draft Audit Report: Page 5, last sentence of the first paragraph states, "We agree with the conclusions of KPMG, LLP that the logistics systems have limited ability to capture financial information."

DoD Response: The entire focus of the congressional requirement to produce the Military Equipment Report pertained to reporting quantities of military equipment and the control over such equipment and not to financial information. The draft audit report statement about logistics systems ability to capture financial information is irrelevant to the purpose of the Military Equipment Report and the OIG, DoD, audit. It implies a potential problem with logistics systems, when it has not been determined what DoD systems will be used to satisfy the future requirements of the new National Defense Property, Plant and Equipment accounting standard.

OIG, DoD Draft Audit Report: Pages 6 through 9, "Beginning Balances" and Tables 3 through 5

DoD Response: Section 363 of Public Law 106-65 did not require a reconciliation between the ending balances of the National Defense Property, Plant and Equipment Quantity Report contained in the FY 1999 DoD Financial Statements and the opening balances of the Military Equipment Report. Rather, the law only required opening balances, which is what was reported. Policy and classification changes and reporting improvements were made between FY 1999 and FY 2000 that resulted in changes between the ending balances of the FY 1999 National Defense Property, Plant and Equipment Quantity Report and the opening balances of the FY 2000 report. These changes and reporting improvements reflected additional refinements made by the Department to improve the presentation and quality of this information. The manner in which the OIG, DoD, reports these differences implies numerous inaccuracies and errors, when in fact such differences are an indication of the improvement efforts made by the Department. Furthermore, such ending and opening balance differences were explained in the FY 2000 National Defense Property, Plant and Equipment Quantity Report of the Military Departments and were available to the OIG, DoD.

OIG, DoD Draft Audit Report: Page 10, "Navy Submission"

Revised

DoD Response: The statement that the Conventional Ammunition Integrated Management System (CAIMS) and the Naval Vessel Register (NVR) do not retain asset history (adds and deletes) information is not totally correct. CAIMS produces tapes of the various transactions, and these tapes are maintained for seven years. A programmed query derives the adds and deletes information. The NVR does retain inventory adds and deletes data for ships and service craft. A report is generated as of the current date and matched against the end of fiscal year report, the First Cost Ships Report, to provide a listing of adds and deletes by class and hull number. Supporting documentation for adds and deletes is retained.

OIG, DoD Draft Audit Report: Page 12, "Navy, Air Force, and Marine Corps Ending Balances." "... preliminary inquiries into the availability of the documents revealed that the Military Services' designated points-of-contact did not have detailed information down to the unit level of detail."

DoD Response: The statement that the Military Services' designated points-of-contact did not have the detailed information down to the unit level is misleading. Each level of management within the chain-of-command required a different level of data and information. For instance, the points-of-contact at the Assistant Secretary of the Navy level and at the major command level did not require detail information at the unit level. In addition, in an OUSD(AT&L) memorandum, dated April 14, 2000, the Military Departments were directed to report by item nomenclature within the prescribed categories and not by individual items at the unit level. Planning for the execution of the preparation of the Military Equipment Report was done with the audit community, and the auditors were provided points-of-contact at the command level and in some cases for each of the logistic systems from which the data was derived.

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OIG, DoD Draft Audit Report: Page 26, "For aircraft and ships, there were no annual physical inventories."

DoD Response: The statement that there were no physical inventories for Navy aircraft is misleading. The Navy utilizes a perpetual inventory tracking system that tracks status, movement and location of each individual aircraft on a continual basis. When an entity utilizes a perpetual inventory, a physical inventory is not required.

Audit Team Members

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